467 of the most important invisible exports during the period, while emigrants' remittances were of considerable importance in Lithuania and to a lesser extent in Latvia. These remittances were mostly from the large number (particularly Lithuanians) of emigrants to the U.S.A.; the figures tend to vary with conditions in that country. It may be observed that these remittances were sometimes sent for investment, and the inclusion of the total figure as a current item is therefore questionable. The only other credit item calling for comment is the adjustment of the Latvian merchandise balance. This consisted largely of a deduction of 10 per cent. from the value of imports, which was officially explained on the ground that a large proportion of Latvia's imports were sent to Riga on consignment and purchased at prices appreciably below those given in the invoices.

The only debit item of any importance consisted of interest and dividends. During this period, at any rate, the service of the foreign debt, private and public, did not occupy a disproportionate position in, or put any great strain on, the balance of payments; and in this respect there is no indication that these countries were suffering from over-indebtedness. It may thus be said that by 1929 these countries had adjusted their balance of payments to the conditions then obtaining. The large excess of merchandise imports which had become natural to Latvia was, however, to call for a radical readjustment in the following period; and the fact that in many ways the financial crisis was more severe in Latvia than in the two other countries may largely be ascribed to this consideration.

III. THE FINANCIAL SYSTEM, 1919–30

1. Currency and Monetary Policy

● 436 At the end of the War the new States of the Baltic were left to develop monetary systems of their own. Having no substantial financial resources they were almost entirely at the mercy of the large States, such as the U.S.S.R. and Germany, who were their neighbours, for the currency in circulation when the Baltic States achieved their independence was to a very great extent that of Germany and Russia. In all three countries Ostmarks and Reichsmarks were to be found side by side with different varieties of roubles such as Tsarist, Kerensky, Duma, and Ost roubles; in Estonia it is said that commercial transactions even took place on the basis of Finnish marks and Danish or Swedish crowns. The currency in circulation thus fluctuated with that of the issuing State, and a period of great confusion followed.

It is not proposed that a detailed examination should here be made of the various stages by which, in each of these three States,

the chaotic conditions of the immediate post-War period were overcome.[1] By 1922 or 1923 it had become possible for all three States to introduce their own monetary units, to institute a régime of *de facto*, if not of *de jure*, stabilization, and to establish a central bank. These operations were achieved largely without the help of foreign borrowing, but the feeling of confidence by which they were followed led to a certain influx of foreign capital which accelerated somewhat towards the end of the period. This, in turn, increased the stability of the new currencies. *De jure* stabilization was effected, the gold and foreign exchange reserves of the central banks gradually rose, and by 1929 it might have seemed that the Baltic States had gone a long way towards solving their currency problems. 426 652

Latvia. The first of these States to succeed in stabilizing its currency was Latvia. There was an abortive attempt to establish a Latvian rouble shortly after the Armistice, but the extraordinary conditions of the time, as will be seen, led to inflation and a very rapid depreciation of the currency in the following eighteen months. During the latter half of 1920, conditions became more stable, and the pace of inflation began to slacken. By the spring of 1921 it had become possible to introduce a programme of stabilization.[2] A new currency, the lat, was introduced, its gold content being fixed at that of the Swiss franc.[3] A series of rigid economies in the public expenditure were put into effect. By means of certain monopolies, particularly those of the export of flax and timber, the authorities were able to accumulate a considerable exchange reserve. These measures enabled Latvia to enter on a short period of *de facto* stabilization; and the *de jure* stage was reached on August 3, 1922. Finally a State bank, the *Latvijas Bankas*, was formed and came into operation in November of that year. The share capital is owned entirely by the State, and the bank is defined in its statutes as a State institution though it possesses a certain degree of legal independence.[4] The reserve for the note issue consists of gold or 'stable foreign currencies', and must amount to 50 per cent. of the first 100 million lats of notes in circulation and 75 per cent. of the next 50 million lats.[5] The reason why these proportions are so high is that there is a considerable volume of Treasury notes in circulation in addition to those of the bank itself.

Lithuania. The situation in Lithuania immediately after the War 000

[1] For full details cf. von Lehnich, op. cit.

[2] The successful carrying out of this policy was due largely to M. Kalning, the Minister of Finance, by whose name the programme is usually known.

[3] Making a parity of 25·2215 lats to the gold £.

[4] The position is fully examined in Kisch and Elkin, *Central Banks*, London, 1930, pp. 33-4.

[5] But see below, p. 174, footnote 2.

436 722 Lithuania. The situation in Lithuania was rather different.[1] The currency in circulation at the outbreak of War was the rouble, but with the German occupation Reichsmarks came into circulation. To regularize this position a special institution was set up in 1916 by the German authorities, which issued the so-called 'Oberost' notes in exchange for roubles and marks. But, owing to the conservative instinct of the peasants, roubles tended to be hoarded, and thus the backing for the 'Oberost' money came to be preponderantly German currency. This system was maintained after the declaration of independence, and Lithuania had actually had no currency of her own until 1922, for the authorities continued to issue 'Oberost' notes, which were known as 'Auksinas'. This currency naturally fluctuated with the German mark, and the rapid depreciation of the latter during 1922 made the introduction of an independent Lithuanian currency an urgent necessity. It was finally 652 436 decided to create the litas, the parity of which was fixed at one-tenth of the U.S. gold dollar,[2] since this currency was familiar to many Lithuanians, owing to the large number of their compatriots who had emigrated to the United States. The currency came into circulation on October 1, 1922. Simultaneously a bank of issue, the *Lietuvos Bankas*, was established with a gold reserve consisting largely of 3 million gold roubles received from Russia under the Peace Treaty. The bank was granted the sole right of note circulation, one-third of which must be covered by gold. Half of the share capital is held by the State, and provision is made by statute for the exercise of the authority of the State over certain of the bank's activities.

436 652 *Estonia.* The monetary history of Estonia during the period was rather different from that of the other two countries. This was due to Estonia's credit policy. Shortly after the declaration of independence Estonia began to issue its own currency, the Estonian mark, based roughly on the German mark, of which a great number were then in circulation. The extraordinary needs of the war with Russia led to a steady depreciation, which lasted until about the middle of 1921. But, though the need for extraordinary expenditure such as that required in the previous two years had ceased by 1921, the policy of the Central Bank (*Eesti Pank*), which had been formed in 1919, somewhat aggravated the situation. This bank was a State institution and acted as a bank of issue. But it was also the most important commercial bank of the country, for, during the years 1921–3, the Government endeavoured to restore something of Estonia's former industrial activity by supplying industry with

[1] A full account will be found in Dr. Kazys Sruoga, *Die Wirtschaft der Republik Litauen und ihre Notenemission*, Kaunas, 1930.

[2] Parity to the gold £ being, therefore, 48·666.

436 652 648 working capital through the *Eesti Pank*. Meanwhile, though the bank was able to keep the mark more or less stable at the rate to which it had depreciated by 1921, this was effected only at the cost of a large proportion of its reserves. This led to a severe crisis in the autumn of 1924 and the League of Nations was called in to advise.[1]

The restriction of credit which followed on this step enabled Estonia to maintain the stability of the currency at the depreciated rate. For the *de jure* stage of stabilization, appeal was again made to the League in November 1926. Their report[2] recommended the reform of the *Eesti Pank*, and the transfer of the long-term assets it had accumulated through the Government's earlier industrial policy to a specially created Mortgage Institute, both of which recommendations had been made in the earlier report but had not yet been put into effect. The League also advised the introduction of a new currency. To enable these reforms to be realized an international loan was required, and, if the necessary changes were made, the League declared its readiness to allow the loan to be issued under its auspices.

648 457 457 652 The loan was issued in June 1927, £700,000 in London and Amsterdam at 94½, and $4,000,000 in New York at the same price. £1,000,000 of the proceeds went to purchase the long-term assets of the *Eesti Pank*, which were then transferred, as recommended, to the newly created Mortgage Institute. Efforts were made by the League to secure some measure of independence for the Central Bank from the State, and the State undertook to sell certain of its shares in the bank.[3] The scope of the bank's lending operations were strictly limited by the new Statutes. It was also granted the monopoly of the note issue, and the legal cover, which had previously been such as to encourage its commercial operations, was to consist as to not less 436 453 than 40 per cent. of gold or 'gold exchange'. Finally, the parity of the new currency, the Estonian kroon, was fixed at that of the Swedish crown,[4] and the currency was put into circulation at the beginning of 1928.

Once *de jure* stabilization was achieved, the stability of these currencies was maintained throughout the period without recourse to official exchange restrictions. There was also a steady increase in the gold and foreign exchange holdings of the Central Banks, though, except in Lithuania, there was a tendency for reserves to fall towards

[1] The report of the Financial Committee of the League was issued in March, 1925: see League Document C. 240, M. 92, 1925, II.

[2] *Banking and Currency Reform in Estonia, May 25, 1927*: League Document C. 227, M. 89, 1927, II.

[3] According to Kisch and Elkin, op. cit., p. 27, a large proportion of its holding was sold in 1929.

[4] Giving a parity to the gold £ of 18·1595.

436 the end of the period. At all times, however, the cover for the note
453 circulation was well above the legal requirements. The position can be seen from the following table:

TABLE 27. *Gold and Foreign Currency Reserves: Notes in Circulation*

End of	Estonia* (kr.) Central Bank: Gold and foreign currency reserves	Estonia* (kr.) Central Bank: Notes in circulation	Latvia (lats) Central Bank: Gold and foreign currency reserves‡	Latvia (lats) Central Bank: Notes in circulation†	Lithuania (lits) Central Bank: Gold and foreign currency reserves	Lithuania (lits) Central Bank: Notes in circulation
1922	..	37	45	54	33	30
1923	14	34	67	63	66	60
1924	13	36	71	68	94	93
1925	13	35	53	61	64	82
1926	14	34	55	62	69	87
1927	22	39	76	71	86	97
1928	31	36	101	77	80	85
1929	27	34	80	83	113	95
1930	23	32	65	86	125	117

* The figures for 1922–6 are obtained by revaluing the original figures, which are given in Estonian marks, at the official rate of conversion into kroon (100 Estonian marks = 1 kroon).

† Including the Treasury note issue. ‡ Including those held by the State.

2. FOREIGN DEBT

457 The Baltic States all suffer from lack of capital, and it was therefore inevitable that during this period there should be some borrowing abroad. This borrowing, however, was not excessive, and the meeting of the foreign debt service has never been as difficult a problem as, for example, it has been in Central and South-East Europe. But no account of the economic and financial structure of these States would be complete without some description of the foreign debt.

The position at the end of 1930, by which point foreign indebtedness had probably reached its greatest dimensions,[1] can be seen from the following table, based on figures taken from the League of Nations Memorandum on *Balances of Payments* for 1933. The capital raised during the period is represented largely by items 2 and 4. No data are available for estimating Estonia's private short-term debt, but from figures given in this publication for subsequent years it appears to have been small, if not negligible. It will be seen that, while the per head foreign indebtedness in Estonia

[1] Lithuania, however, obtained a loan from the Swedish Match Co. in 1930, payments to Lithuania in respect of which continued to be made until 1932.